



**PULASKI TOWNSHIP NON-UNIFORMED
PENSION PLAN**

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Pulaski Township
Lawrence County
Pulaski, PA 16143

We have conducted a compliance audit of the Pulaski Township Non-Uniformed Pension Plan for the period January 1, 2010, to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Pulaski Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Pulaski Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

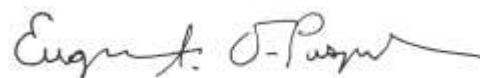
The results of our tests indicated that, in all significant respects, the Pulaski Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement
- Finding No. 3 – Failure To Properly Fund Member's Account

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Pulaski Township and, where appropriate, their responses have been included in the report.

May 24, 2013



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Pulaski Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Pulaski Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 07-2007, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to annually contribute \$3,300 per member.

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township overstated the total plan members’ payroll by \$1,563 on the Certification Form AG 385 filed in 2011 and by \$1,875 on the Certification Form AG 385 filed in 2012 by including supervisor meeting pay. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and failed to follow the instructions accompanying the certification form.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s 2011 and 2012 state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost %</u>	<u>Payroll Overstatement</u>	<u>State Aid Overpayment</u>
2011	9.252%	\$ 1,563	\$ 145
2012	8.649%	\$ 1,875	<u>\$ 162</u>
Total Overpayment Of State Aid			<u><u>\$ 307</u></u>

Recommendation: We recommend that the total excess state aid, in the amount of \$307, be returned to the Commonwealth from the township’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement

Condition: The township allocated state aid to the non-uniformed pension plan in excess of the plan’s pension costs in the year 2011, as illustrated below:

	<u>2011</u>
State aid allocation	\$ 10,591
Actual municipal pension costs	<u>7,593</u>
Excess state aid	2,998
Less: Excess state aid previously returned to Commonwealth *	2,173
Less: Excess state aid received in 2011 to be returned to the Commonwealth (See Finding No. 1)	<u>145</u>
Residual state aid	<u><u>\$ 680</u></u>

* Upon receipt of its 2011 state aid allocation, the township returned \$2,173 to the Commonwealth without realizing that it could have been deposited into the township’s defined benefit police pension plan. This amount will be returned to the township and must be deposited into the police pension plan along with the \$680 residual state aid cited in the table above.

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Although plan officials were aware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan's actual pension costs, the reconciliation performed by the township utilized an incorrect amount of actual pension costs, as reported in Finding No. 3. In addition, plan officials were unaware that a portion of the 2011 state aid allocation could be deposited into the township's defined benefit police pension plan.

Effect: It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years; consequently, the township must allocate the excess state aid to its defined benefit police pension plan.

Recommendation: We recommend that the municipality allocate the residual excess state aid of \$680 to their defined benefit police pension plan.

In addition, we recommend that in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the plan's actual pension costs.

Management's Response: Municipal officials agreed with the finding without exception.

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Properly Fund Member’s Account

Condition: The township made an \$825 quarterly contribution in 2011 to the account of a new employee who was still in a probationary period and not yet eligible for an employer contribution.

Criteria: Section 12 of the plan’s PMRS agreement states, in part:

The township will contribute quarterly three hundred and ten dollars (\$310) to each member’s account. Members who do not earn credited service for the full quarter shall have the contribution credited based on the proportion of credited service earned to that which could have been earned during the quarter. The township may annually elect to contribute at a higher rate in future years by adopting a resolution and filing a copy of it with the Board.

Section 1 of the plan’s PMRS agreement states, in part:

Credited service shall accrue from the original member’s date of hire or the expiration of the member’s probationary period if one so existed, whichever is more recent.

According to the minutes of the January 24, 2011, board of supervisors meeting, new employees will be enrolled in and receive quarterly contributions in the non-uniformed pension plan after a six month probation period.

Furthermore, Resolution No. 01-2011 set the township’s quarterly contribution to each member’s account at \$825 for calendar year 2011.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that a contribution was not made to the new employee’s account until after the probationary period.

Effect: The municipality allocated funds to the member’s account in excess of that allowed by the plan’s governing document. By making excess contributions, the plan member will receive additional benefits beyond those outlined in the plan’s governing document.

It is the opinion of this department that the township’s failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the member’s account at this time.

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

In addition, including the excess member contributions in the calculation of actual pension costs when reconciling the amount of state aid allocated to the pension plan with the plan's actual pension costs resulted in the allocation of excess state to the plan, as reported in Finding No. 2.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess contributions should be withdrawn from the member's account and be reimbursed to the township.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials agreed with the finding without exception.

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2007	\$ 9,619	\$ 421
2008	9,489	None
2009	9,686	None
2010	9,609	431
2011	8,418	None
2012	8,382	1,671

PULASKI TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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Lawrence County
1172 State Route 208
Pulaski, PA 16143

Mr. Sam Verano	Chairman, Board of Township Supervisors
Ms. Megan Allison	Secretary
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.